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COCHRANE-DUNLOP HARDWARE LIMITED/ANNUAL REPORT 1973

COCHRANE-DUNLOP HARDWARE LIMITED

Directors

A. E. Barron, Toronto, Ontario
E. A. Bird, Toronto, Ontario
A. Gordon Cardy, Toronto, Ontario
F. Cochrane, Toronto, Ontario
D. Higgins, Toronto, Ontario
F. S. Martin, Ottawa, Ontario
F. F. Todd, Oakville, Ontario

Officers

F. Cochrane, *President*
D. Higgins, *Vice-President and General Manager*
R. L. T. Baillie, *Secretary-Treasurer*

Executive Offices

160 Bloor Street East, Toronto, Ontario

Transfer Agent and Registrar

The Canada Trust Company—Toronto

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The consolidated financial statements of Cochrane-Dunlop Hardware Limited and subsidiary Companies for the year ended December 31, 1973, and the report of the Auditors thereon are submitted on behalf of the Board of Directors.

Economic changes throughout Canada in 1973 were widespread. As a distributor of mill and industrial supplies your company is particularly well situated to take advantage of growth in residential and commercial construction, in mining activity (gold, nickel, potash, base metals) and in newsprint and lumber production. Household spending for goods and services was strong, supporting growth in the dealer division.

Price increases were a continuing factor throughout the year and this trend is continuing. The rate of price inflation at the wholesale level in 1973 was considerably greater than the rate of inflation at the retail level and this will have obvious effects on future trends.

Material shortages, in face of increasing demand, have also been a significant factor for your company and considerable effort has been expended in modifying this problem.

SALES AND PROFITS

Sales and profits for the year 1973 were substantially ahead of the previous year, reflecting both the price levels referred to above and the high level of economic activity which prevailed in Canada throughout 1973. Sales for the year at 45.1 million dollars were 14.8% ahead of 1972. Net income at 793 thousand dollars was 17.6% ahead of 1972.

Reflecting a major growth in activity in most major areas and industries served by your company's mill supply branches, sales in the last quarter of 1973 were

approximately 33% above the previous year. This was an accelerating trend during the quarter, reaching a 48% increase in the month of December, 1973 alone, and this rate of increase over the corresponding month a year earlier has continued into 1974.

Operating margins have been maintained in essentially all branch locations, although in a climate of extensive general price increases it must be recognized that operating results reflect in part profit improvements arising from the effect of price increases on inventory on hand. This factor is a continuing situation, however the impact on results in 1973 has been considerably more pronounced than usual.

In order to finance increased values for inventory and the increased sales volumes achieved by the company, your company's dependence on bank borrowing has increased. This, coupled with the increased interest rates being incurred for prime rate bank borrowing, increased your company's interest cost materially over the prior year.

In comparison with companies involved in the provision of manufacturing and processing services whose effective rates of income tax have decreased during the year, the tax rate for your company increased over 1972 rates. Whether this discrimination between types of investment and the resulting direction given to commitments of risk capital is an equitable situation in the total community of Canada is questionable; certainly it does not appear to recognize the significant contribution which the distributor generally is making to the efficiency and quality of life in this country.

In summary, net income for the year 1973 is the highest ever achieved by your company and it

represents an improvement in the return on investment to shareholders which is consistent with our long term goals.

FIXED ASSETS

The expenditures on fixed assets during the year include approximately \$500,000.00, being the cost of land acquired near Toronto which is to be used for future branch expansion in the Toronto area and which has been reported on previously. The first stage in this expansion is currently in process; this being the establishment of a new and separate Industrial Branch in the Toronto area. This move will provide an opportunity for a major penetration into the industrial supply potential of the Toronto area and will also relieve some of the pressures on our Toronto Dealer Division Warehouse which is operating at capacity.

It is anticipated that Dealer Division volume will increase substantially and an additional benefit from the move of our Toronto industrial business, which is presently supplied out of the same warehouse as the dealer business, will be an improvement in both volume and in service efficiency.

DIVIDENDS

Regular dividends of 20¢ per quarter have been paid to Class "A" shareholders for a number of years. Dividends to Common shareholders previously paid on a basis of 80¢ per annum were paid on the basis

of 20¢ per quarter during 1973. It should be noted that during 1973 dividends on Class "A" shares were regular dividends, whereas the dividends paid on Common shares were free of Canadian Income Tax in the hands of shareholders as a result of elections under the Income Tax Act to pay these dividends out of the company's tax-paid undistributed surplus on hand.

OUTLOOK

A significant increase in sales over 1973 levels is projected for 1974. Part of this increase will be attributable to the continuing effects of inflation outlined above. No significant service interruptions as a result of labour problems appear evident at the present time, although extended contract negotiations are in process at one of our major branches, and the term of this contract has expired. One of the continuing problems facing your company for 1974 is the financing of business growth coupled with the cash requirements of financing increased inventory and accounts receivable values. This will be a significant factor in the determination of cash flow needs, working capital ratios and an over all dividend policy. At the present time however, it would appear that operating results will continue to improve on a satisfactory basis.

On behalf of the Board.

Toronto, Ontario
April 17, 1974

F. COCHRANE
President

STATISTICAL SUMMARY (figures in thousands except ratios, shares, and amounts per share)

FOR THE YEAR	1973	1972	1971	1970	1969	1968	1967	1966
Sales - - - - -	\$45,115	\$39,294	\$41,815	\$41,516	\$35,751	\$35,662	\$33,112	\$29,379
Depreciation - - - - -	179	188	202	202	215	218	182	175
Income taxes - - - - -	820	640	630	550	385	570	487	336
Net income - - - - -	793	675	613*	489	360*	519	457	333
% to sales - - - - -	1.8%	1.7%	1.5%*	1.2%	1.0%*	1.4%	1.4%	1.1%
per common share - - - - -	5.45	4.62	4.19*	3.32	2.42*	3.53	3.10	2.24
Dividends—total - - - - -	128	128	128	128	128	128	128	128
per share—Class A - - - - -	.80	.80	.80	.80	.80	.80	.80	.80
—Common - - - - -	.80	.80	.80	.80	.80	.80	.80	.80
Increase in working capital -	260	626	503	473	365	117	154	258
AT YEAR END								
Working capital - - - - -	8,373	8,114	7,488	6,985	6,512	6,147	6,031	5,877
Shareholders' equity - - - - -	10,993	10,348	9,822	9,319	8,958	8,657	8,267	7,404
Shares outstanding								
—Class A - - - - -	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092
—Common - - - - -	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018

* Before adding Extraordinary Items of: 1971—\$25,000 or \$0.18 per common share
1969—\$68,904 or \$0.48 per common share

COCHRANE-DUNLOP
and subsidiaries

CONSOLIDATED
DECEMBER 31, 1973

ASSETS

	1973	1972
Current assets:		
Cash - - - - -	\$ 9,305	\$ 9,135
Accounts receivable - - - - -	6,802,677	4,883,784
Merchandise inventory at lower of cost and net realizable value - - - - -	8,015,729	6,733,848
Prepaid expenses and other assets - - - - -	322,315	225,383
	<u>15,150,026</u>	<u>11,852,150</u>
Fixed assets, at cost:		
Buildings and equipment - - - - -	3,989,115	3,987,679
Furniture and fixtures - - - - -	1,223,642	1,179,500
Automotive equipment - - - - -	134,037	127,338
	<u>5,346,794</u>	<u>5,294,517</u>
Less accumulated depreciation - - - - -	3,614,107	3,440,680
	<u>1,732,687</u>	<u>1,853,837</u>
Land - - - - -	887,189	380,675
	<u>2,619,876</u>	<u>2,234,512</u>
	<u>\$17,769,902</u>	<u>\$14,086,662</u>

On behalf of the Board:

F. COCHRANE, *Director*

A. E. BARRON, *Director*

AUDITOR

To the Shareholders of
Cochrane-Dunlop Hardware Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Hardware Limited and subsidiary companies and consolidated source and application of funds for the year then ended. Our examination included a general review of the records and supporting documents necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies and consolidated source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the companies.

Toronto, Canada,
March 25, 1974.

HARDWARE LIMITED

companies

BALANCE SHEET

31, 1973

LIABILITIES

	1973	1972
Current liabilities:		
Bank indebtedness - - - - -	\$ 1,965,666	\$ 225,408
Accounts payable and accrued charges - - - - -	4,111,181	2,973,111
Income and other taxes payable - - - - -	667,833	422,196
Dividends payable - - - - -	32,022	117,833
	<u>6,776,702</u>	<u>3,738,548</u>
Shareholders' equity:		
Share capital—		
Authorized:		
565,420 non-cumulative preference shares of par value 20¢ each redeemable at par		
17,092 class "A" shares of no par value (note)		
143,018 common shares of no par value		
Issued and fully paid:		
17,092 class "A" shares } - - - - -	533,700	533,700
143,018 common shares }		
Retained earnings - - - - -	10,459,500	9,814,414
	<u>10,993,200</u>	<u>10,348,114</u>
	<u>\$17,769,902</u>	<u>\$14,086,662</u>

NOTE:

The non-voting class "A" shares are entitled to a fixed cumulative dividend of 80¢ per share in priority to the common shares but to no further participation in annual dividends.

REPORT

ies as at December 31, 1973 and the statements of consolidated income, consolidated retained earnings and con-
counting procedures and such tests of accounting records and other supporting evidence as we considered neces-

December 31, 1973 and the results of their operations and the source and application of their funds for the year then
ding year.

CLARKSON, GORDON & CO.
Chartered Accountants

COCHRANE-DUNLOP HARDWARE LIMITED

and subsidiary companies

STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
Sales - - - - -	\$45,114,966	\$39,294,074
Costs and expenses, exclusive of the following items - - - - -	42,999,160	37,542,618
Depreciation - - - - -	178,871	188,022
Remuneration of directors and senior officers - - - - -	192,024	183,899
Interest on bank indebtedness - - - - -	131,638	64,992
	<u>43,501,693</u>	<u>37,979,531</u>
Net income before income taxes - - - - -	1,613,273	1,314,543
Income taxes - - - - -	820,000	640,000
Net income for the year - - - - -	<u>\$ 793,273</u>	<u>\$ 674,543</u>
Net income per common share - - - - -	<u>\$5.45</u>	<u>\$4.62</u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
Balance, beginning of year - - - - -	\$ 9,814,414	\$ 9,288,209
Net income for the year - - - - -	793,273	674,543
	<u>10,607,687</u>	<u>9,962,752</u>
Deduct:		
Dividends—common shares - - - - -	114,414	114,414
—class "A" shares - - - - -	13,674	13,674
	<u>128,088</u>	<u>128,088</u>
Tax paid on undistributed income - - - - -	20,099	20,250
	<u>148,187</u>	<u>148,338</u>
Balance, end of year - - - - -	<u>\$10,459,500</u>	<u>\$ 9,814,414</u>

COCHRANE-DUNLOP HARDWARE LIMITED

and subsidiary companies

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1973

	<u>1973</u>	<u>1972</u>
Source of funds:		
Net income for the year - - - - -	\$ 793,273	\$ 674,543
Depreciation, not requiring a current outlay of funds - - - - -	178,871	188,022
	<u>972,144</u>	<u>862,565</u>
Application of funds:		
Expenditures on fixed assets - - - - -	564,235	88,172
Dividends - - - - -	128,088	128,088
Tax paid on undistributed income - - - - -	20,099	20,250
	<u>712,422</u>	<u>236,510</u>
Increase in working capital - - - - -	259,722	626,055
Working capital at beginning of year - - - - -	8,113,602	7,487,547
Working capital at end of year - - - - -	<u>\$8,373,324</u>	<u>\$8,113,602</u>

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited

Cochrane-Dunlop Hardware—Quebec, Inc.

Cochrane-Dunlop Hardware—Manitoba Limited

Cochrane-Dunlop Hardware—Saskatchewan Limited

Dominion Hardware Stores Limited

Wholesale Branches

ONTARIO

Dryden

Elliot Lake

Little Current

North Bay

Sault Ste. Marie

Sudbury

Thunder Bay

Toronto

Wawa

QUEBEC

Val d'Or

MANITOBA

Thompson

SASKATCHEWAN

Esterhazy

Saskatoon

Retail Branches

ONTARIO

Copper Cliff

Guelph

Hamilton

Lively

North Bay

Oakville

Sault Ste. Marie

Sudbury (2)

MANITOBA

Thompson

COCHRANE-DUNLOP HARDWARE LIMITED
AND SUBSIDIARY COMPANIES

**STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS**

	six months ended June 30	
	1973	1972
Source of funds:		
Net income for the period.....	\$ 262,442	\$ 326,788
Add depreciation, not requiring a current outlay of funds....	94,011	101,012
	<u>356,453</u>	<u>427,800</u>
Application of funds:		
Expenditures on fixed assets...	540,450	72,437
Dividends.....	35,440	6,836
Tax paid on undistributed income	4,800	—
	<u>580,690</u>	<u>79,273</u>
Increase (decrease) in working capital.....	\$ (224,237)	\$ 348,527
Working capital at March 31st...	<u>\$7,889,365</u>	<u>\$7,836,074</u>

Note: Subject to audit and year end adjustments.



Interim Report for the six months
ended June 30, 1973

EXECUTIVE OFFICES
160 BLOOR STREET EAST
TORONTO, ONTARIO
PHONE 416/921-3103

COCHRANE-DUNLOP HARDWARE LIMITED

AND SUBSIDIARY COMPANIES

REPORT FOR THE SIX MONTHS ENDED JUNE 30, 1973

TO THE SHAREHOLDERS:

Net income of your company for the first six months of 1973 was \$262,442 or \$1.79 per Common share, a decrease of 19.7% from income of \$326,788 or \$2.24 per share in the first half of 1972.

Sales for the 1973 period were \$21,055,125, an increase of 7.8% over the sales of \$19,529,917 in the corresponding period of 1972. A significant part of the sales improvement is in the direct sale category which increased approximately 30% over the prior year, while direct warehouse shipment sales show an overall increase of 4%.

New direct shipment programs at competitive margins have been introduced in the dealer division which have had satisfactory acceptance. New markets have been opened by the dealer division which provide growth prospects for the future.

Of special importance in the dealer supply division is a reduction in both sales volume and in profit margin of the bicycle product line. In 1972 this product enjoyed a substantial volume of sales as the bicycle became increasingly popular in the retail market. In 1973 however, the market has matured, new suppliers have entered the field and the margin of profit has declined. While your company retains a significant share of this important market the premium volume and profit contribution of the buoyant 1972 year have not been maintained.

A combination of the change in mix of sales, the changes in profit margins, the increase in inventory quantities and inventory values to support the increasing sales volume with the resulting increase in bank borrowing, the increase in bank interest rates and the increase, in 1973, of effective income tax rates, underlies the decrease in net income for the period.

While the effect of accelerating price inflation, now being recognized on a broad base throughout our product lines, presents a significant challenge, we continue to regard the prospects for 1973 with confidence.

Toronto, Canada
August 24, 1973.

F. COCHRANE
President

COCHRANE-DUNLOP HARDWARE LIMITED

AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

	six months ended June 30	
	1973	1972
Sales.....	\$21,055,125	\$19,529,917
Costs and expenses, exclusive of the following items.....	20,378,468	18,750,988
Depreciation.....	94,011	101,012
Interest on bank indebtedness..	46,204	37,129
	20,518,683	18,889,129
Net income before income taxes..	\$536,442	\$640,788
Income taxes.....	274,000	314,000
Net income for the period.....	\$ 262,442	\$ 326,788
Net income per common share..	\$ 1.79	2.24

Note: Subject to audit and year end adjustments.